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### **Bridging the Differences Between Copyright's Legal Traditions - The Emerging EC Fair Use Doctrine**

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**BRIDGING THE DIFFERENCES BETWEEN COPYRIGHT'S  
LEGAL TRADITIONS – THE EMERGING EC FAIR  
USE DOCTRINE\*\***

by MARTIN SENFTLEBEN\*

*In the current online environment, more flexibility in the field of copyright limitations is a legislative necessity rather than a mere regulatory option. From a social and cultural perspective, the Web 2.0, with its advanced search engine services, interactive platforms and various forms of user-generated content, is central to the promotion and enhancement of freedom of expression and information. From an economic perspective, it creates a parallel universe of traditional content providers relying on copyright protection, and emerging Internet industries whose further development depends on robust copyright limitations. In particular, the newcomers in the online market — social networking sites, video forums and virtual worlds — promise a remarkable potential for economic growth that have already attracted the attention of the OECD.<sup>1</sup>*

*Current EC copyright law, however, is likely to frustrate these opportunities for cultural, social and economic development. In contrast to U.S. copyright law, flexible elements, such as an open-ended fair use provision, are sought in vain. Instead, the EC Copyright Directive 2001/29<sup>2</sup> encourages*

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\*\*The present article is part of a broader research project concerning the development of a horizontal fair use defence that could be applied across the different domains of intellectual property law. For an introduction to this horizontal fair use approach, see Martin R.F. Senftleben, *Overprotection and Protection Overlaps in Intellectual Property Law – the Need for Horizontal Fair Use Defences*, in HORIZONTAL ISSUES IN INTELLECTUAL PROPERTY LAW, UNCOVERING THE MATRIX, ATRIP CONFERENCE 2009 (Annette Kur ed., 2010, available at <http://ssrn.com/abstract=1597123>).

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<sup>1</sup> See OECD, Participative Web: User-Created Content, doc. DSTI/ICCP/IE(2006)7/Final, Apr. 12, 2007, available at <http://213.253.134.43/oecd/pdfs/browseit/9307031E.PDF>. Cf. Thomas Dreier, *Primär- und Folgemärkte*, in Gerhard Schricker, THOMAS DREIER & ANNETTE KUR, GEISTIGES EIGENTUM IM DIENST DER INNOVATION 51 (2001); CHRISTOPHE GEIGER, *Die Schranken des Urheberrechts als Instrumente der Innovationsförderung – Freie Gedanken zur Ausschließlichkeit im Urheberrecht*, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT INTERNATIONAL [GRUR INT'L] 459 (2008).

<sup>2</sup> See Directive 2001/29/EC of the European Parliament and of the Council of May 22, 2001 [hereinafter EC Copyright Directive], on the harmonization of certain aspects of copyright and related rights in the information society.

*the further restriction of precisely-defined statutory exceptions in the light of the EC three-step test that has been modelled on similar international provisions.<sup>3</sup> Against this background, the time is ripe to debate the introduction of an EC fair use doctrine that would open up the current restrictive system, offer sufficient breathing space for social, cultural and economic needs, and enable the EC copyright infrastructure to keep pace with the rapid development of the Internet.*

*For this purpose, the differences between the continental-European and the Anglo-American approach to copyright limitations (section I), and the rationale of fair use legislation (section II) will be discussed before embarking on an analysis of current problems that have arisen in the EC (section III). On this basis the conceptual contours of an EC fair use doctrine will be discussed (section IV). Drawing conclusions, the international dimension of the proposed fair use initiative will be considered (section V).*

## I. DIFFERENCES

International law making and harmonization activities have led to a remarkable convergence of Anglo-American copyright and continental-European *droit d'auteur*. To this day, however, the approach to copyright limitations differs significantly: Whereas continental-European countries provide for a closed catalogue of carefully-defined limitations, the Anglo-American copyright tradition allows for an open-ended fair use system that leaves the task of identifying individual cases of exempted unauthorized use to the courts.

A catalogue of various types of continental-European statutory copyright exceptions can be found in Article 5 of the EC Copyright Directive. Besides the mandatory exemption of temporary acts of reproduction to be implemented by all Member States, Article 5 contains optional exceptions that relate to private copying, use of copyrighted material by libraries, museums and archives, ephemeral recordings, reproductions of broadcasts made by hospitals and prisons, illustrations for teaching or scientific research, use for the benefit of people with a disability, press privileges, use for the purpose of quotations, caricature, parody and pastiche, use for the purposes of public security and for the proper performance or reporting of administrative, parliamentary or judicial proceedings, use of political speeches and public lectures, use during religious or official celebrations,

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<sup>3</sup> See EC Copyright Directive art. 5(5) on the one hand, and Berne Convention art. 9(2), TRIPS art. 13, and WCT art. 10 on the other hand. Cf. MARTIN R.F. SENFTLEBEN, COPYRIGHT, LIMITATIONS AND THE THREE-STEP TEST – AN ANALYSIS OF THE THREE-STEP TEST IN INTERNATIONAL AND EC COPYRIGHT LAW 125-33 (2004); Christophe Geiger, *From Berne to National Law, via the Copyright Directive*, EUR. INTELL. PROP. REV. [EIPR] 486 (2007).

use of architectural works located permanently in public places, incidental inclusions of a work in other material, use for the purpose of advertising the public exhibition or sale of artistic works, use in connection with the demonstration or repair of equipment, use for the reconstruction of buildings, and additional cases of use having minor importance.

A prominent example of the Anglo-American approach to copyright limitations is the fair use doctrine that has evolved in the United States. Section 107 of the U.S. Copyright Act permits the unauthorized use of copyrighted material for purposes “such as criticism, comment, news reporting, teaching . . . scholarship, or research.”<sup>4</sup> To guide the decision on individual forms of use, four factors are set forth in the provision which shall be taken into account among other considerations that may be relevant in a given case:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.<sup>5</sup>

On the basis of this legislative framework and established case law, U.S. courts conduct a case-by-case analysis in order to determine whether a given use can be exempted from the control of the copyright holder.<sup>6</sup>

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<sup>4</sup> The list is understood as an open, non-exclusive enumeration. See H. REP. NO. 94-1476, at 65-66 and S. REP. NO. 94-473, at 62 (1975), *quoted in* L.E. SELTZER, EXEMPTIONS AND FAIR USE IN COPYRIGHT – THE EXCLUSIVE RIGHTS TENSIONS IN THE 1976 COPYRIGHT ACT, CAMBRIDGE 19-20 (1978) (“[S]ince the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts. . . . The bill endorses the purpose and general scope of the judicial doctrine of fair use . . . but there is no disposition to freeze the doctrine in the statute. . . . Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.”).

<sup>5</sup> 17 U.S.C. § 107 (2006).

<sup>6</sup> The factors provide guidance for the application of the “equitable rule of reason” which fair use represents. Cf. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448, 450 n.31, 454, 455 n.40 (1984). Additional factors may be taken into account. As for the application of the fair use doctrine in practice, see Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1125-30; Jessica Litman, *Reforming Information Law in Copyright's Image*, 22 U. DAYTON L. REV. 588, 612 (1997); David Nimmer, “*Fairest of Them All*” and *Other Fairy Tales of Fair Use*, 66 LAW & CONTEMP. PROBS, 263 (2003); Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. Pa. L. Rev. 543 (2008).

The remarkable difference in the regulation of copyright limitations becomes understandable in the light of the theoretical groundwork underlying common law and civil law copyright systems. The fair use approach can be traced back to the utilitarian foundation of the Anglo-American copyright tradition perceiving copyright as a prerogative granted to enhance the overall welfare of society by ensuring a sufficient supply of knowledge and information.<sup>7</sup> This theoretical basis only justifies rights strong enough to induce the desired production of intellectual works. Therefore, the exclusive rights of authors deserve individual positive legal enactment.<sup>8</sup> Those forms of use that need not be reserved for the rights owner to provide the necessary incentive remain free. Otherwise, rights would be awarded that are unnecessary to achieve the goals of the system. In sum, exclusive rights are thus delineated precisely, while their limitation can be regulated flexibly in open-ended provisions, such as fair use.<sup>9</sup> Oversimplifying the theoretical model underlying common law copyright, it might be said that freedom of use is the rule, rights are the exception.

The opposite constellation — rights the rule, freedom the exception — follows from the natural law underpinning of continental-European *droit d'auteur*. In the natural law theory, the author occupies centre stage.<sup>10</sup> A literary or artistic work is perceived as a materialization of the author's personality. Accordingly, it is assumed that a bond unites the author with the object of her creation.<sup>11</sup> Moreover, the author acquires a property right in her work by virtue of the mere act of creation. This has the corollary that nothing is left to the law apart from formally recognizing what is already inherent in the "very nature of things."<sup>12</sup> The author-centrism of the civil law system calls on the legislator to safeguard rights broad enough to concede to authors the opportunity to profit from the use

<sup>7</sup> In this vein, the U.S. Supreme Court, for instance, referred to copyright as an "engine of free expression" in *Harper & Row, Publishers v. Nation Enterprises*, 471 U.S. 539, 558 (1985).

<sup>8</sup> Cf. Alain Strowel, *Droit d'auteur and Copyright: Between History and Nature*, in *OF AUTHORS AND ORIGINS* 235, 241-49 (Brad Sherman & Alain Strowel eds., 1994); Steve P. Calandrillo, *An Economic Analysis of Property Rights in Information: Justifications and Problems of Exclusive Rights, Incentives to Generate Information, and the Alternative of a Government-Run Reward System*, 9 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 301, 310 (1998).

<sup>9</sup> See Paul E. Geller, *Must Copyright Be For Ever Caught Between Marketplace and Authorship Norms?*, in *OF AUTHORS AND ORIGINS*, *supra* note 8, at 159; Strowel, *supra* note 8, at 250-51.

<sup>10</sup> Cf. Bernard Edelman, *The Law's Eye: Nature and Copyright*, in *OF AUTHORS AND ORIGINS*, *supra* note 8, at 79, 82-87; Geller, *supra* note 9, at 169-70; Strowel, *supra* note 8, at 236-37.

<sup>11</sup> Cf. EUGEN ULMER, *URHEBER- UND VERLAGSRECHT* 110-11 (1980). See HENRI DESBOIS, *LE DROIT D'AUTEUR EN FRANCE* 538 (2d ed. 1978).

<sup>12</sup> See DESBOIS, *supra* note 11, 538; ULMER, *supra* note 11, at 105-06.

of their self-expression, and to bar factors that might stymie their exploitation. In consequence, civil law copyright systems recognize flexible, broad exclusive rights. Exceptions, by contrast, are defined narrowly and often interpreted restrictively.<sup>13</sup>

## II. RATIONALE

The analysis on the basis of copyright theory explains the evolution of fair use in common law jurisdictions. For present purposes, however, it is essential to identify the particular advantage of fair use legislation. Without a strong argument weighing in favour of fair use, the antagonism between author centrism and flexible rights in civil law jurisdictions, and utilitarianism and flexible limitations in common law jurisdictions, can hardly ever be overcome.<sup>14</sup> To bring to light the merits of fair use, the costs of copyright protection must be considered. The grant of exclusive rights in literary and artistic works restricts fundamental freedoms, particularly freedom of expression and freedom of competition.<sup>15</sup> From an economic perspective, it can be added that copyright monopolies, while spurring investment in new information products, also impede follow-on innovation requiring the use of pre-existing, protected material.<sup>16</sup> Hence,

<sup>13</sup> Cf. F. WILLEM GROSHEIDE, *AUTEURSRECHT OP MAAT 2* (1986); Geller, *supra* note 9, at 170; Strowel, *supra* note 8, at 249-50. For a recent confirmation of this questionable dogma, see ACHIM FÖRSTER, *FAIR USE* 182-84 (2008). Cf. ECJ, July 16, 2009, case C-5/08, *INFOPAQ INT'L/DANSKE DAGBLADES FORENING*, available at <http://www.curia.eu>.

<sup>14</sup> Admittedly, this antagonism may not be overestimated anyway from a historical perspective. See Jane C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, in *OF AUTHORS AND ORIGINS*, *supra* note 8, at 131, 133.

<sup>15</sup> See EGBERT J. DOMMERING, *DE ACHTERVOLGING VAN PROMETHEUS – OVER VRIJHEID EN BEZIT VAN INFORMATIE*, AMSTERDAM: (2008); Christophe Geiger, “Constitutionalising” *Intellectual Property Law? The Influence of Fundamental Rights on Intellectual Property in the European Union*, 37 *IIC* 371 (2006); *DROIT D’AUTEUR ET LIBERTÉ D’EXPRESSION* (Alain Strowel, François Tulkens & Dirk Voorhoof eds., 2006); P. Bernt Hugenholtz, *Copyright and Freedom of Expression in Europe*, in *THE COMMODIFICATION OF INFORMATION* 239 (Niva Elkin-Koren & Neil W. Netanel eds., 2002); Thomas Dreier, *Balancing Proprietary and Public Domain Interests: Inside or Outside of Proprietary Rights?*, in *EXPANDING THE BOUNDARIES OF INTELLECTUAL PROPERTY: INNOVATION POLICY FOR THE KNOWLEDGE ECONOMY* 295-316 (2001); SANDRO MACCIACCHINI, *URHEBERRECHT UND MEINUNGSFREIHEIT* (2000); Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 *N.Y.U. L. REV.* 355 (1999); Neil W. Netanel, *Copyright and a Democratic Civil Society*, 106 *YALE L.J.* 283 (1996).

<sup>16</sup> Cf. WILLIAM N. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* (2003). With regard to copyright law,

there is a delicate balance between freedom and protection inherent in copyright law. The cultural innovation cycle supported by copyright law requires both rights broad enough to spur investment and creativity, and limitations broad enough to provide sufficient breathing space for freedom of expression and freedom of competition.<sup>17</sup>

With regard to the maintenance of this balance, fair use has a crucial role to play. In advanced copyright protection systems offering flexible, broad exclusive rights, it is wise to employ fair use as a counterbalance. In this way, the risk of counterproductive overprotection can be minimized. On the basis of an elastic fair use test, the courts can keep the broad grant of protection within reasonable limits and inhibit exclusive rights from unduly curtailing competing freedoms. Accordingly, the fair use discussion must not be confined to the rather theoretical question of whether freedom of use should be the rule, and protection the exception. Instead, it raises the fundamental question of appropriate balancing tools within the copyright system. *Flexible rights necessitate flexible limitations.* This becomes obvious in times of new technological developments that impact the copyright system. In these times of change, broad exclusive rights are likely to absorb and restrict new possibilities of use even though this may be undesirable from the perspective of social, cultural or economic needs.<sup>18</sup> In this situation, flexible fair use factors ensure a fast reaction. They allow the courts to reestablish a proper balance between freedom and protection.<sup>19</sup> A closed system of narrowly-defined limitations, by con-

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see William N. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325 (1989).

<sup>17</sup> Cf. Martin R.F. Senftleben, *Der kulturelle Imperativ des Urheberrechts*, in KUNST IM MARKT – KUNST IM RECHT (Matthias Weller, Nicolai B. Kemle & Thomas Dreier eds., 2010); NEIL W. NETANEL, COPYRIGHT'S PARADOX, (2008).

<sup>18</sup> With regard to the critical assessment of broad IP protection, see GIUSEPPE MAZZIOTTI, EU DIGITAL COPYRIGHT LAW AND THE END-USER (2008); GEISTIGES EIGENTUM: SCHUTZRECHT ODER AUSBEUTUNGSTITEL? (Otto Depenheuer & Karl-Nikolaus Peifer eds., 2008); Reto M. Hilty, *Sündenbock Urheberrecht?*, in GEISTIGES EIGENTUM UND GEMEINFREIHEIT 111 (Ansgar Ohly & Diethelm Klippel eds., 2007); RETO M. HILTY & ALEXANDER PEUKERT, INTERESSENAUSGLEICH IM URHEBERRECHT (2004); CHRISTOPHE GEIGER, DROIT D'AUTEUR ET DROIT DU PUBLIC À L'INFORMATION, APPROCHE DE DROIT COMPARÉ (2004); DETLEF KRÖGER, INFORMATIONSFREIHEIT UND URHEBERRECHT (2002); Thomas Hoeren, *Urheberrecht in der Informationsgesellschaft*, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 866 (1997).

<sup>19</sup> The U.S. fair use doctrine, for instance, has always been understood as an open regulation of copyright limitations. The list of purposes referred to in Section 107 of the U.S. Copyright Act is understood as an open, non-exclusive enumeration. See H. REP. NO. 94-1476, at 65-66 and S. REP. NO. 94-473, at 62 (1975), quoted in SELTZER, *supra* note 4, at 19-20.

trast, is likely to react too slowly to unforeseen challenges. It requires the intervention of the legislator and the development of new, specific exceptions. This process of law making can hardly keep pace with rapid technological advances. As a result, the balance between freedom and protection will be lost.

Hence, the central advantage of a fair use approach is sufficient flexibility for safeguarding copyright's delicate balance between exclusive rights and limitations satisfying social, cultural and economic needs. Within a flexible fair use framework, the courts can broaden and restrict the scope of limitations. In this way, they are capable of adapting the copyright limitation infrastructure to new circumstances and challenges, such as the digital environment. Leaving this discretion to the courts reduces the need for constant amendments to legislation that may have difficulty in keeping pace with the speed of technological development.<sup>20</sup>

Admittedly, the advantage of flexibility implies the risk of legal uncertainty.<sup>21</sup> The validity of this counter-argument, however, appears doubtful in the light of the wealth of established case law that has been accumulated in countries with a long-standing fair use tradition, such as the U.S. Arguably, past experiences in identifying and delineating copyright limitations case-by-case enhance the foreseeability of future decisions and ensure a sufficient degree of legal certainty.<sup>22</sup> In national systems switching from a closed list of statutory exceptions to an open-ended fair use approach, shortcomings in the area of legal certainty seem unlikely anyway. A sufficient degree of legal certainty can easily be secured by applying case law established under the old system as a basis of the new fair use system.

<sup>20</sup> See Martin R.F. Senftleben, *Beperkingen à la carte: Waarom de Auteursrechtlijn ruimte laat voor fair use*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 10 (2003); Christiaan A. Alberdingk Thijm, *Fair use: het auteursrechtelijk evenwicht hersteld*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 145 (1998); *Fair use – In weiter Ferne, so nah*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 176 (1998).

<sup>21</sup> See Herman Cohen Jehoram, *Fair use – die ferne Geliebte*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 174 (1998), Herman Cohen Jehoram, *Implementatie van de Auteursrechtlijn – De stille strijd tegen een spookrijder*, NJB 1690 (2002), Herman Cohen Jehoram, *Nu de gevolgen van trouw en ontrouw aan de Auteursrechtlijn voor fair use, tijdelijke reproductie en driestappentoets*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 153 (2005), Herman Cohen Jehoram, *Wie is bang voor de driestappentoets in de Auteursrechtlijn?*, in: DOMMERING-BUNDEL 57, (N.A.N.M. van Eijk & P.Bernt Hugenholtz eds., 2008).

<sup>22</sup> In this sense SENFTLEBEN, *supra* note 3, 162-68. Cf. Beebe, *supra* note 6. However, see the critical comments by FÖRSTER, *supra* note 13, 197-201, on the unrestricted openness of the U.S. system. With regard to the predictability of fair use decisions, see also Nimmer, *supra* note 6.



The assertion of insufficient legal certainty, therefore, can be unmasked as a strategic argument that offers advocates of restrictively-delineated limitations the opportunity to present traditional continental-European systems as shining examples of legal certainty. In this line of reasoning, the detailed definition of limitations in continental-European copyright legislation clearly indicates the scope of permitted unauthorized use, and makes court decisions foreseeable — even in the digital environment.<sup>23</sup> Experiences with the current EC limitation infrastructure, however, show that the present EC system is incapable of generating these beneficial effects. The system provides neither legal certainty nor sufficient flexibility in the area of copyright limitations.

### III. EC WORST CASE SCENARIO

The adaptation of EC copyright law to the digital environment has led to a legislative framework that imposes a heavy burden on users of copyrighted material. Elements of both traditions of copyright law have been combined in the most unfortunate way. In the EC Copyright Directive, paragraphs 1, 2, 3 and 4 of Article 5 set forth a closed catalogue of exceptions. As indicated above, this enumeration is in line with the continental-European copyright tradition of precisely-defined copyright limitations. The listed exceptions, however, are subject to a three-step test that was modelled on Articles 9(2) Berne Convention, 13 TRIPs and 10 WCT. This EC three-step test is laid down in paragraph 5.<sup>24</sup> As the test consists of several open-ended criteria, it recalls the Anglo-American copyright tradition.<sup>25</sup> However, the interplay between the two elements — the closed catalogue and the open three-step test — is regulated as follows:

The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a

<sup>23</sup> For a recent invocation of this line of argument, see, e.g., André Lucas, *For a Reasonable Interpretation of the Three-Step Test*, 277 EIPR 282 (2010).

<sup>24</sup> As to the drafting history of this hybrid framework for copyright exceptions, see Michael Hart, *The Proposed Directive for Copyright in the Information Society: Nice Rights, Shame about the Exceptions*, EIPR 169 (1998); P. Bernt Hugenholtz, *Why the Copyright Directive is Unimportant, and Possibly Invalid*, EIPR 499 (2000); D.J.G. Visser, *De beperkingen in de Auteursrechtlijn*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 9 (2001); Frank Bayreuther, *Beschränkungen des Urheberrechts nach der neuen EU-Urheberrechtsrichtlinie*, ZEITSCHRIFT FÜR URHEBER- UND MEDIENRECHT [ZUM] 828 (2001); Jörg Reinbothe, *Die EG-Richtlinie zum Urheberrecht in der Informationsgesellschaft*, GRUR INT'L 733 (2001).

<sup>25</sup> The criterion of “no conflict with a normal exploitation,” for instance, resembles the fourth fair use factor “effect of the use upon the potential market for or value of the copyrighted work.” With regard to the application of fair use analyses concerning the fourth factor in the context of the three-step test, see SENFTLEBEN, *supra* note 3, at 184-87.

normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.<sup>26</sup>

This approach, inevitably, leads to a dilemma. As discussed, a closed list of precisely-defined exceptions, if anything, has the advantage of enhanced legal certainty.<sup>27</sup> This potential advantage, however, is beyond reach under the current EC system. If national legislation adopts and further specifies exceptions from the EC catalogue, these specific national exceptions may still be challenged on the grounds that they are incompatible with the EC three-step test. In other words, national exceptions that are already embedded in an inflexible national framework may further be restricted by invoking the three-step test. On the one hand, national copyright exceptions are thus straitjacketed. Their validity is hanging by the thread of compliance with the abstract criteria of the EC three-step test. On the other hand, the test itself may only be invoked to further restrict national exceptions. Unlike fair use provisions with comparable abstract criteria, it cannot be employed by the courts to create new, additional forms of permitted unauthorized use. Hence, it is impossible to realize the central advantage of flexibility that is inherent in open norms, such as the U.S. fair use doctrine.<sup>28</sup>

In consequence, the current EC system provides neither sufficient flexibility for copyright limitations nor sufficient legal certainty for users of copyrighted material. It combines the two disadvantages of the Anglo-American and the continental-European approach. The corrosive effect of this dysfunctional concept can currently be observed in EC Member States. The following overview of Dutch (section III.A), French (section III.B) and German (section III.C) case law gives evidence of the need for an EC fair use doctrine (section III.D).

<sup>26</sup> See EC Copyright Directive art. 5(5).

<sup>27</sup> Cf. Cohen Jehoram, *supra* note 21.

<sup>28</sup> Cf. Martin R.F. Senftleben, *Fair Use in the Netherlands – a Renaissance?*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA- EN INFORMATIERECHT 1 (2009), available at <http://ssrn.com/abstract=1563986>; Jonathan Griffiths, *The “Three-Step Test” in European Copyright Law – Problems and Solutions*, INTELL. PROP. Q. 489, 495 (2009), available at <http://ssrn.com/abstract=1476968>; Christophe Geiger, *The Three-Step Test, a Threat to a Balanced Copyright Law?*, 37 IIC. 683 (2006), K.J. Koelman, *De nationale driestappentoets*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 6 (2003). The restrictive nature and chilling effect of the EC copyright three-step test has been confirmed by the ECJ, July 16, 2009, case C-5/08, *Infopaq/Danske Dagblades Forening*. The Court pointed out that the precisely-defined exception of Article 5(1) of the EC Copyright Directive, in addition, had to satisfy the criteria of the three-step test laid down in Article 5(5).

*A. Legal Uncertainty: The Netherlands*

Dutch courts applied the three-step test already prior to the Copyright Directive.<sup>29</sup> On the one hand, the adoption and implementation of the Directive led to more frequent references to the three-step test that are made to confirm and strengthen findings equally following from domestic rules.<sup>30</sup> This way of applying the three-step test has little impact on the Dutch catalogue of statutory exceptions. On the other hand, however, the Directive inspired a line of decisions that use the three-step test to override the closed Dutch system of precisely-defined user privileges.

In a ruling of March 2, 2005, the District Court of The Hague forced the long-standing exception for press reviews onto the sidelines, and invoked the three-step test of the Copyright Directive instead.<sup>31</sup> The case concerned the unauthorized scanning and reproduction of press articles for internal electronic communication (via e-mail, intranet etc.) in ministries — a practice that also offered certain search and archive functions. Seeking to determine whether this practice was permissible, the court refused to consider several questions raised by the parties with regard to the specific rules laid down in Article 15 of the Dutch Copyright Act and Article 5(3)(c) of the EC Copyright Directive. In the court's view, considera-

<sup>29</sup> In the case *Zienderogen Kunst*, dating back to the year 1990, the Dutch Supreme Court invoked the three-step test of Article 9(2) of the Berne Convention to support its holding that the quotation of a work may not substantially prejudice the right holder's interest in the exploitation of the work concerned. See Hoge Raad, June 22, 1990, no. 13933, *Nederlandse Jurisprudentie* 1991, at. 268, with case comment by Jaap H. Spoor; *INFORMATIERECHT/AMI* 202 (1990), with case comment by Egbert J. Dommering; 40 *AA* 672 (1991), with case comment by Herman Cohen Jehoram.

<sup>30</sup> In 2003, the Amsterdam Court of Appeals found that a parody did not harm the normal exploitation of the parodied work because it concerned a different market. See *Gerechtshof Amsterdam*, Jan. 30, 2003, *TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT* 94 (2003), with case comment by Kamiel J. Koelman. In a 2006 decision concerning online advertisements reproducing the so-called "TRIPP TRAPP chair," the Court of Zwolle-Lelystad referred to the three-step test of Article 5(5) of the Directive in the context of Article 23 of the Dutch Copyright Act — a limitation permitting the use of certain artistic works for the purpose of advertising their public exhibition or sale. The court found that the use in question prejudiced the exploitation interest of the right holder. This was one of the reasons for denying compliance with Article 23. See *Rechtbank Zwolle-Lelystad*, May 3, 2006, case no. 106031, LJN: AW 6288, *TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT* 179 (2006), with case comment by Kamiel J. Koelman, *MEDIAFORUM* 2006/9 with case comment by Bart T. Beuving.

<sup>31</sup> See *Rechtbank Den Haag*, Mar. 2, 2005, case no. 192880, LJN: AS 8778, *COMPUTERRECHT* 143 (2005) with case comment by Kamiel J. Koelman

tion of these specific rules was unnecessary because the contested use did not meet the requirements of the EC three-step test anyway:

The reason for leaving these three questions unanswered is that the digital press review practice of the State, in the opinion of the court, does not comply with the so-called three-step test of Article 5(5) of the Copyright Directive.<sup>32</sup>

The subsequent discussion of non-compliance with the three-step test resembles a U.S. fair use analysis rather than a close inspection of a continental-European statutory limitation. In particular, the Court stresses the growing importance of digital newspaper exploitation and the impact of digital press reviews on this promising market. The ministry press reviews are held to “endanger” a normal exploitation of press articles and unreasonably prejudice the publisher’s legitimate interest in digital commercialization.<sup>33</sup> Under the fourth U.S. fair use factor “effect of the use upon the potential market for or value of the copyrighted work,” similar considerations could play a decisive role.<sup>34</sup>

The focus on the three-step test, constituting the basis of the court’s reasoning in the press review case, inevitably marginalizes the detailed rules established in Dutch law. On its merits, the applicable statutory limitation laid down in Article 15 of the Dutch Copyright Act merely opens the door to the three-step test. As a result, it is rendered incapable of influencing the further test procedure.<sup>35</sup>

In a more recent decision of June 25, 2008, the District Court of The Hague invoked the three-step test again in a case concerning the payment of equitable remuneration for private copying activities. In this context, the court devoted attention to the question of use of an illegal source as a basis for private copying.<sup>36</sup> The detailed regulation of private copying in Article 16c of the Dutch Copyright Act does not contain any indication to the effect that private copying from an illegal source is to be deemed impermissible. The drafting history of the provision, by contrast, reflects the clear intention of the Dutch legislator to exempt private copying irrespec-

<sup>32</sup> See *Rechtbank Den Haag*, case no. 192880 para. 14.

<sup>33</sup> See *id.* paras. 16–18.

<sup>34</sup> See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 451 (1984) (“[A]ctual harm need not be shown. . . . Nor is it necessary to show with certainty that future harm will result. What is necessary is a showing by a preponderance of the evidence that some meaningful likelihood of future harm exists.”).

<sup>35</sup> See Martin R.F. Senftleben, *L’application du triple test: vers un système de fair use européen?*, *PROPRIÉTÉS INTELLECTUELLES* 453 (2007).

<sup>36</sup> See *Rechtbank Den Haag*, case 246698, *TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT* 146 (2008), with case comment by Cyril B. van der Net.

tive of whether a legal or illegal source is used.<sup>37</sup> Having recourse to the three-step test of Article 5(5) of the Copyright Directive, the District Court of The Hague, nonetheless, dismantled this seemingly robust edifice of legal certainty in one single sentence. Without offering a detailed analysis, the court stated that private copying from an illegal source was “in conflict with the three-step test.” Accordingly, it was held to fall outside the private copying exemption of Article 16c:

In the parliamentary history, there are indications of a different interpretation. However, the interpretation advocated by the minister and supported by the government — assuming that private copying from an illegal source was legal — is in conflict with the three-step test of Article 5(5) of the Directive.<sup>38</sup>

The central point here is not the prohibition of private copying using illegal sources. It is the erosion of the central argument weighing in favor of precisely-defined exceptions and against a fair use system. Regardless of precise definitions given in the Dutch Copyright Act, the ruling of the Court minimizes the degree of legal certainty in the field of copyright limitations. Users of copyrighted material in the Netherlands can no longer rely on the wording of the applicable statutory exception. On the basis of the EC three-step test, a certain use may be held to amount to copyright infringement even though it is exempted from the authorization of the right holder in the Dutch Copyright Act.<sup>39</sup> Hence, the degree of legal certainty can hardly be deemed higher than the degree attained in a fair use system. Arguably, the standard of certainty is even lower because the additional scrutiny of precisely-defined exceptions in the light of the three-step test is not reflected in the Dutch Copyright Act. In copyright systems with a statutory fair use provision, by contrast, the factors applied by the courts are clearly stated in the law. Consulting Section 107 of the U.S. Copyright Act, users of copyrighted material in the U.S., for instance, can inform themselves about the criteria that the courts will consider when determining the permissibility of a given unauthorized use.

#### *B. Inflexibility: France*

Admittedly, this problem of insufficient transparency can easily be solved by incorporating the three-step test of the EC Copyright Directive

<sup>37</sup> See the material quoted by the Rechtbank Den Haag, para. 4.4.1.

<sup>38</sup> See Rechtbank Den Haag, case 246698, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 146 (2008), with case comment by van der Net, *supra* note 36, para. 4.4.3.

<sup>39</sup> See Martin R.F. Senftleben, *Privé-kopiëren in het licht van de driestappentoets – opmerkingen naar aanleiding van het vonnis van de Haagse rechtbank inzake de thuiskopie*, INTELL. EIGENDOM EN RECLAMERECHT 265 (2008).

into national law. In EC Member States following this approach,<sup>40</sup> the tension between precisely-defined exceptions on the one hand, and additional control on the basis of the abstract criteria of the three-step test on the other hand, is made obvious for users relying on copyright exceptions. In France, for instance, it is apparent from national legislation that use falling under a copyright exception will additionally be scrutinized in the light of the three-step test. According to Article L. 122-5 of the French Intellectual Property Code, the listed statutory exceptions may neither conflict with a normal exploitation of the work nor prejudice the author's legitimate interests.<sup>41</sup>

The central problem raised by an additional examination of exceptions in the light of the three-step test, however, cannot be solved in this way. Although copyright exceptions are already defined precisely, their application still depends on compliance with the open-ended three-step test. As a result, the attainable degree of legal certainty is reduced substantially when compared with the traditional continental-European approach of precisely-defined exceptions that are not additionally examined on the basis of abstract criteria.<sup>42</sup>

The amalgam of specific statutory exceptions and the open-ended three-step test, moreover, further diminishes the flexibility of systems with precisely-defined use privileges. Like the reported Dutch cases, the French case "Mulholland Drive" gives evidence of this freezing effect. The case was brought by a purchaser of a DVD of David Lynch's film *Mulholland Drive* who sought to transfer the film into VHS format in order to watch it at his mother's house. Technical protection measures applied by the film

<sup>40</sup> For an overview of the implementation strategies followed by EC Member States, see INSTITUTE FOR INFORMATION LAW, STUDY ON THE IMPLEMENTATION AND EFFECT IN MEMBER STATES' LAWS OF DIRECTIVE 2001/29/EC ON THE HARMONIZATION OF CERTAIN ASPECTS OF COPYRIGHT AND RELATED RIGHTS IN THE INFORMATION SOCIETY (2007), available at <http://www.ivir.nl>.

<sup>41</sup> Cf. André Lucas & Pierre Sirinelli, *Chronique: Droit d'auteur et droits voisins*, PROPRIÉTÉS INTELLECTUELLES, 297, 314-16 (2006); V.L. Benabou, *Patatras! A propos de la décision du Conseil constitutionnel du 27 juillet 2006*, PROPRIÉTÉS INTELLECTUELLES 240 (2006); Christophe Geiger, *The French Implementation of the Information Society Directive: A Disappointing Result of a Promising Debate*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 1 (2008); Martin R.F. Senftleben, *L'application du triple test: vers un système de fair use européen?*, PROPRIÉTÉS INTELLECTUELLES 453 (2007).

<sup>42</sup> Therefore, it is inconsistent to invoke legal certainty as an argument to justify the current hybrid EC concept of specific exceptions that are additionally controlled in the light of the three-step test. Nonetheless, this argument is still advanced by Lucas, *supra* note 23, at 282.

producers prevented the making of the VHS copy.<sup>43</sup> In this regard, the French Supreme Court held that the relevant Articles L. 122-5 and L. 211-3 of the French Intellectual Property Code had to be interpreted in the light of the three-step test. The exception for private copying could not be invoked against the application of technical protection measures when the intended act of copying would conflict with a normal exploitation of the work concerned.<sup>44</sup>

Examining the private copying exception in the light of this criterion of the three-step test, the French Supreme Court rejected the previous decision taken by the Paris Court of Appeals. The latter Court had ruled that the intended private copy did not encroach upon the film's normal DVD exploitation.<sup>45</sup> The French Supreme Court reversed this holding for two reasons. On the one hand, it asserted that a conflict with a normal exploitation had to be determined against the background of the enhanced risk of piracy inherent in the digital environment. On the other hand, the Court underlined that the exploitation of cinematographic works on DVD was important for recouping the investment in film productions.<sup>46</sup>

The verdict of the French Supreme Court resembles the decisions taken in the Netherlands. It is based on the three-step test rather than the specific requirements laid down in the national statutory exception. On its merits, the national exception merely constitutes a starting point for the Court to embark on a scrutiny of the contested use in the light of the three-step test. The result of this way of applying the test is the erosion of the French private copying exception in the digital environment.<sup>47</sup> The Court employs the three-step test to place further constraints on the scope of the national exception. In consequence, the limited flexibility of the French system of precisely-defined use privileges is further restricted.

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<sup>43</sup> See Cour de cassation française, case 05-15824, Feb. 28, 2006, *Mulholland Drive*: JCP éd. G 2006, II, 10084, with case comment by André Lucas. For further commentary, see Geiger, *The Three-Step Test, a Threat to a Balanced Copyright Law?*, *supra* note 28; Laurier Y. Ngombe, *Technical Measures of Protection Versus Copy for Private Use: Is the French Legal Saga Over?*, EIPR 61 (2007).

<sup>44</sup> See Cour de cassation, JCP éd. G 2006, II, 10084.

<sup>45</sup> See Cour d'appel de Paris, fourth chamber B, decision of Apr. 22, 2005, *Juris-Data* n° 2005-268600, *Mulholland Drive*, JCP éd. G 2005, II, 10126, with case comment by Christophe Geiger.

<sup>46</sup> See Cour de cassation, JCP éd. G 2006, II, 10084.

<sup>47</sup> Cf. Christophe Geiger, *The Answer to the Machine Should Not Be the Machine: Safeguarding the Private Copy Exception in the Digital Environment*, EIPR 121 (2008).

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*C. Alternative Routes: Germany*

German case law also testifies to the insufficient flexibility of the current EC framework for copyright limitations. While the foregoing Dutch and French examples illustrate problems arising from the application of the three-step test, however, developments in Germany show that the very basis of the current EC system — a closed catalogue of precisely-defined exceptions — already renders the courts incapable of keeping pace with the constant evolution of new Internet technologies. Complex questions about the scope of precisely-defined exceptions arise particularly with regard to the distribution of primary and secondary markets for information products and services.<sup>48</sup> In the relation between copyright or database owners and search engines, for instance, the right of quotation has become a crucial factor.

Implementing the EC Copyright Directive, legislators in EC Member States, as indicated above, enjoyed the freedom to choose exceptions from the catalogue of Article 5 of the Directive and tailor the scope of resulting use privileges to individual national needs. Apart from the mandatory exemption of temporary acts of reproduction, the transposition of exceptions into national law is optional under the Copyright Directive. In consequence, the domestic scope of an exception listed in Article 5 of the Directive, such as the right of quotation, may differ from country to country. These differences can have a deep impact on the information that may be displayed by search engines in EC Member States without the authorization of the copyright owner.

The Dutch legislator, for instance, decided to broaden the scope of the right of quotation during the implementation of the EC Copyright Directive. The long-standing “context requirement” of Article 15a of the Dutch Copyright Act, according to which quotations had to serve the purpose of criticism and review, has been attenuated. In the amended version, the provision is also applicable to announcements and expressions serving comparable purposes. Accordingly, the quotation right has been held to cover information made available by search engines on the grounds that these engines “announce” the contents of underlying source databases.<sup>49</sup> In a case concerning a search engine that collects information from the websites of housing agencies, the Court of Alkmaar clarified that for the quotation right to apply, the reproduction and communication

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<sup>48</sup> Cf. Dreier, *supra* note 1; Geiger, *Die Schranken des Urheberrechts als Instrumente der Innovationsförderung – Freie Gedanken zur Ausschließlichkeit im Urheberrecht*, *supra* note 1.

<sup>49</sup> See Gerechtshof Arnhem, July 4, 2006, case no. 06/416, LJN AY0089, MEDIAFORUM 21 (2007), with case comment by Bart T. Beuving; TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 93 (2007), with case comment by Kamiel J. Koelman.



of collected data to the public had to keep within the limits of what was necessary to give a good impression of the housing offer concerned.<sup>50</sup> The Court specified that, under this standard, it was permissible to provide search engine users with a description of up to 155 characters, address and rent details, and one single picture not exceeding the format of 194x145 pixels.<sup>51</sup>

In Germany, by contrast, the traditional confinement of the quotation right to criticism and review was upheld when implementing the Copyright Directive. This more restrictive approach limits the room to manoeuvre for the courts. The District Court of Hamburg, for instance, refused to bring thumbnails of pictures displayed by Google's image search service under the umbrella of the right of quotation. Before turning to an analysis of copyright exceptions, the Court clarified that a thumbnail did not have characteristic features of its own that made the individual features of the original work fade away. Accordingly, there was no room for qualifying the conversion of pictures into thumbnails as a "free use" not falling under the exclusive rights of authors by virtue of § 24 of the German Copyright Act.<sup>52</sup>

On this basis, the Court argued with regard to copyright exceptions that thumbnails could not be regarded as permissible quotations in the sense of § 51 no. 2 of the German Copyright Act because they did not serve as evidence or argumentative basis for independent comment.<sup>53</sup> The stricter German quotation standard, still requiring use in the context of criticism and comment, thus prevented the Court from offering breathing space for the image-related search service in question. Interestingly, the District Court of Hamburg expressly recognized that search engines were of

essential importance for structuring the decentralized architecture of the world wide web, localising widely scattered contents and knowledge, and therefore, ultimately, for the functioning of a networked society.<sup>54</sup>

However, in spite of this "esteem for search engine services," the Court did not feel in a position to interpret the German quotation right

<sup>50</sup> See *Rechtbank Alkmaar*, Aug. 7, 2007, case no. 96,206, *TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT* 148 (2007), with case comment by Kamiel J. Koelman. On procedural grounds, the judgement has been annulled by *Gerechtshof Amsterdam*, Dec. 13, 2007, case no. LJN BC0125, available at <http://www.iept.nl>.

<sup>51</sup> See *Rechtbank Alkmaar*, case no. 96,206, para. 4.14.

<sup>52</sup> See *Landgericht Hamburg*, Sept. 26, 2008, case no. 308 O 248/07, sec. II.B.4, available at [http://www.openjur.de/u/30461-308\\_o\\_248-07.html](http://www.openjur.de/u/30461-308_o_248-07.html).

<sup>53</sup> See *id.* sec. II.B.6.a. With regard to the right of quotation in German copyright law, see Gerhard Schricker, in *URHEBERRECHT KOMMENTAR* (Gerhard Schricker ed., 3d ed. 2006).

<sup>54</sup> See *Landgericht Hamburg*, case 308 O 248/07, sec. B.I.6.d.

extensively to exempt the use of thumbnails for the image search system. As the right of quotation had been designed with an eye to use under different circumstances, the Court felt that it was the task of the legislator to intervene and reconcile the interests of authors and right owners with the strong public interest in access to graphical online information and the economic interests of search engine providers.<sup>55</sup> In the absence of an open-ended fair use provision, the Court was paralyzed by an inflexible limitation infrastructure.

In a recent decision that also dealt with Google's image search service, the German Federal Court of Justice confirmed that the unauthorized use of picture thumbnails did not fall under the right of quotation in § 51 of the German Copyright Act. To fulfil the traditional context requirement that had not been abandoned during the implementation of the Copyright Directive, the user making the quotation would have to establish an inner connection between the quoted material and her own thoughts. This requirement was not satisfied in the case of picture thumbnails that were merely used to inform the public about contents available on the Internet.<sup>56</sup> In this context, the Court stated that:

[N]either the technical developments concerning the dissemination of information on the Internet nor the interests of the parties which the exception seeks to protect justify an extensive interpretation of § 51 of the German Copyright Act that goes beyond the purpose of making quotations. Neither the freedom of information of other Internet users, nor the freedom of communication or the freedom of trade of search engine providers, require such an extensive interpretation.<sup>57</sup>

This clarification indicates that the German Federal Court of Justice did not deem it necessary to solve the case on the basis of the right of quotation. By contrast, the Court followed an alternative route to create breathing space for the image search service at issue. While it refrained from inferring an implicit contractual license for search engine purposes from the mere act of making content available on the Internet,<sup>58</sup> the Court held that Google's use of the pictures was not unlawful because the copyright owner had consented implicitly to use of her material in the image search service by making her works available online without employing

<sup>55</sup> See *id.* sec. B.I.6.d. With regard to the scope of the quotation right under the German Copyright Act, see Thomas Dreier, *Thumbnails als Zitate? – Zur Reichweite von § 51 UrhG in der Informationsgesellschaft*, in *FESTSCHRIFT FÜR ACHIM KRÄMER ZUM 70. GEBURTSTAG 225* (Uwe Blaurock, Joachim Bornkamm & Christian Kirchberg eds., 2009).

<sup>56</sup> See BGH, Apr. 29, 2010, case I ZR 69/08, at 11-12, *available in German at* <http://www.bundesgerichtshof.de>.

<sup>57</sup> See *id.* at 12-13.

<sup>58</sup> See *id.* at 14-15.

technical means to block the automatic indexing and displaying of online content by search engines.<sup>59</sup>

It is unclear whether this solution on the basis of implicit consent will yield satisfactory results in all cases of contested search engine use. The case before the District Court of Hamburg, for instance, concerned protected material that had not been made available by the copyright owner but by an unauthorized third party. In this constellation, implicit consent can hardly be assumed. Referring to this situation, however, the German Federal Court indicated that the search engine provider could rely on the safe harbour for the hosting of third party content set forth in Article 14 of EC Directive 2000/31.<sup>60</sup> Accordingly, liability for copyright infringement could be avoided by providing for appropriate notice-and-take-down procedures.

The decision of the German Federal Court of Justice is of particular interest because it shows a further consequence of the current restrictive EC framework for copyright limitations. As the hybrid concept of precisely-defined exceptions and the three-step test does not offer sufficient room to manoeuvre for the courts, alternative routes are chosen to arrive at satisfactory results. The assumption of implicit consent, for instance, appears as an attempt to bypass the inflexible copyright limitation infrastructure. It is questionable, however, whether this solution is consistent. Virtually, the German Federal Court of Justice introduced a flexible element through the back door of doubtful assumptions of the intentions of a copyright owner making her works available on the Internet.

#### D. *Need for Fair Use*

In sum, case law from several EC Member States testifies to substantial shortcomings in the current EC framework for copyright limitations.<sup>61</sup> As demonstrated by the Dutch and French cases, legal certainty is minimized under the current legal regime because the application of the open-ended three-step test imposes unforeseeable constraints on exceptions that are defined precisely in the national laws of EC Member States. The decisions in Germany show that the precise definition of exceptions renders the limitation system incapable of fast reactions to new technological challenges. Hence, it is to be concluded that the current EC framework for copyright limitations offers *neither legal certainty nor sufficient flexibility*.

<sup>59</sup> See *id.* at 15-19.

<sup>60</sup> See *id.* at 21-22 (referring to ECJ, July 16, 2009, joined cases C-236/08–C-238/08, *Google/Louis Vuitton et al.*, available at <http://www.curia.eu>). Cf. Directive 2000/31/EC of the European Parliament and of the Council of June 8, 2000, on certain legal aspects of information society services, in particular electronic commerce, in the internal market.

<sup>61</sup> For a broader overview of EC case law, see Griffiths, *supra* note 28, at 4-10.

Alternative routes to satisfactory results, such as the assumption of implicit consent, may be chosen by the courts instead. The fast development of online technology and corresponding business models, however, requires continuous recalibrations of copyright limitations within a reliable framework. User-generated content, search engine services and the digitization of cultural material can serve as examples of current phenomena requiring the reconsideration of the scope of limitations.<sup>62</sup> Without sufficient breathing space in the area of copyright limitations, important social, cultural and economic benefits that could be derived from appropriate reactions to these challenges, are likely to be lost.

When it is considered that, in addition to insufficient legal certainty and flexibility, lawmaking in the EC is much slower than in individual countries, it becomes clear that the current regulation of limitations in the EC is a worst case scenario.<sup>63</sup> The process of updating EC copyright legislation requires not only agreement at Community level but also national implementation acts in all Member States. Therefore, reactions to unforeseen technological developments and new social, cultural or economic

<sup>62</sup> Cf. Natali Helberger et al., *Legal Aspects of User Created Content* (2009), available at <http://ssrn.com/abstract=1499333>; P. Bernt Hugenholtz, *De Google Book-schikking: de wereldliteratuur gelicentieerd*, NJB 2145 (2009); Paul Katzenberger, *Zwangsdigitalisierung urheberrechtlich geschützter Werke in den USA und in Deutschland: das Projekt Google Book Search und § 137l UrhG*, GRUR INT'L 563 (2010); M. Knopp, *Fanfiction—nutzergenerierte Inhalte und das Urheberrecht*, GRUR 28 (2010); Anne-marie C. Beunen, *De Google Book Search Settlement nader beschouwd en bekeken vanuit bibliotheken*, TISCHRIFT VOOR AUTEURS-, MEDIA- EN INFORMATIERECHT 38 (2010); Stefan Bechtold, *Optionsmodelle und private Rechtsetzung im Urheberrecht am Beispiel von Google Book Search*, GRUR 282 (2010); Martin R.F. Senftleben, *Pacman forever—preserving van computergames*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA- EN INFORMATIERECHT 221 (2009). MIRIAM ELFERINK & ALLARD RINGNALDA, *DIGITALE ONTSluitING VAN HISTORISCHE ARCHIEVEN EN VERWEESDE WERKEN* (2009); Joris V.J. Van Hoboken, *De aansprakelijkheid van zoekmachines. Uitzondering zonder regels of regels zonder uitzondering?*, COMPUTERRECHT 15 (2008); Stef van Gompel, *Unlocking the Potential of Pre-Existing Content: How to Address the Issue of Orphan Works in Europe?*, 38 IIC 669 (2007); David B. Sherman, *Cost and Resource Allocation Under the Orphan Works Act of 2006: Would the Act Reduce Transaction Costs, Allocate Orphan Works Efficiently, and Serve the Goals of Copyright Law?*, 12 VA. J.L. & TECH. 13 (2007).

<sup>63</sup> See Martin R.F. Senftleben, *Fair Use in The Netherlands – A Renaissance?*, TIJDSCHRIFT VOOR AUTEURS, MEDIA EN INFORMATIERECHT 1, 2-4 (2009), available at <http://ssrn.com/abstract=1563986>. To reduce the harm flowing from the Copyright Directive, the EC three-step test should at least be construed flexibly. For guidelines in this regard, see Christophe Geiger, Jonathan Griffiths & Reto M. Hilty, *Declaration on a Balanced Interpretation of the “Three-Step Test” in Copyright Law*, 39 IIC 707 (2008).

needs will not only be slow like in traditional continental-European systems with precisely-defined exceptions. In the EC, these reactions will be very slow, and far too slow to keep pace with the rapid development of the Internet, because additional law and policy making at EC level is required.

While the reported German cases give evidence of attempts to find loopholes for the creation of more breathing space by circumventing the current restrictive combination of exceptions and the three-step test, it is obvious that these remedies are rather inconsistent and incompatible with the overall structure of copyright law. The right place to strike a proper balance between freedom and protection in copyright law is the regulation of copyright limitations. Instead of inducing courts to invent around an overly restrictive framework for limitations, EC copyright law should provide the courts with the legal instruments necessary to maintain copyright's delicate balance even in times of rapid technological developments that require constant and fast adaptations to new circumstances.

In other words, the introduction of a fair use provision in the field of copyright limitations is indispensable to overcome the current lamentable state of the EC system and realize the central advantage of open-ended norms that is essential in the current situation. Enhanced flexibility in the area of EC copyright limitations is not only needed because of the rapid development of the Internet. It is also required because the process of EC policy making in the field of copyright limitations is far too slow to maintain a closed system of precisely-defined exceptions that necessitates repeated legislative intervention. Given the social, cultural and economic concerns at stake, it would be irresponsible not to switch to more sustainable law making that includes flexible fair use elements.<sup>64</sup>

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<sup>64</sup> U.S. courts relied on fair use, for instance, to deal with advanced search engine services and user-generated content. As for image search services, the Ninth Circuit Court of Appeals held that the smaller, indexed images of Google's image search qualified as a fair use under the U.S. fair use doctrine. The court grounded its analysis on the notion of transformative use that, traditionally, constitutes an important factor capable of tipping the scales to a finding of fair use. *Cf. Leval, supra* note 6, at 1111; Neil W. Netanel, *Copyright and a Democratic Civil Society*, 106 *YALE L.J.* 283, 381 (1996). Pointing out a significant benefit to the public, the court noted that "a search engine may be more transformative than a parody because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work." *Perfect 10, Inc. v. Amazon.com*, 487 F.3d 701, 721 (9th Cir. 2007). In this vein, the court concluded that "the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case. In reaching this conclusion, we note the importance of analyzing fair use flexibly in light of new circumstances." *Id.* at 723. With regard to user-generated content, see *Warner Bros. Entm't v. RDR Books*, 575 F. Supp. 2d

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IV. EC FAIR USE DOCTRINE

So far, the term “fair use” has been used primarily as a reference to the fair use doctrine in US copyright law. While the incorporation of the U.S. doctrine into the EC copyright system may appear desirable to harmonize copyright law on both sides of the Atlantic,<sup>65</sup> it is clear that this radical departure from the current legal framework in the EC and the continental-European civil law tradition is highly unlikely, if not unfeasible. Furthermore, it is doubtful whether a sudden change from a closed catalogue of exceptions to an open-ended norm that occupies centre stage within the limitation infrastructure would yield the expected beneficial results. In an environment where the doctrine, unlike in the U.S., has not evolved gradually, and where the courts have little experience with the recalibration of copyright’s balance in the light of open-ended criteria, it might be overly ambitious to erode long-standing EC exceptions, such as press privileges, the quotation right and exemptions for parody, and replace them with a general fair use doctrine.

Hence, the present inquiry does not necessarily seek to clarify whether the interplay of a broad fair use provision with several highly specific exceptions, as in the U.S. copyright system, could serve as a model for the more flexible regulation of limitations in the EC. By contrast, it is the central purpose of the present inquiry to clarify whether some flexible fair use element could be added to the restrictive EC framework without changing the structure of the system radically. In the present context, the term “fair use”, thus, broadly refers to an opening clause that would add flexibility to the regulation of copyright limitations. It does not refer directly to a literal copy of the U.S. doctrine. In particular, a fair use defence may feature less prominently in the system of EC copyright limitations than it does in the U.S. Any future regulation of EC limitations is likely to remain predominantly based on precisely-defined exceptions, even if a flexible fair use element is included. Rather than abolishing long-standing EC exceptions in the course of introducing a broad fair use clause, the EC discussion on fair use will most probably lead to the maintenance of a comprehensive list of specific exceptions that is

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513 (S.D.N.Y. 2008). Cf. Andrew J. Sanders, *J.K. Rowling and the Lexicon*, Warner Brothers Entertainment Inc. v. J.K. Rowling v. RDR Books, et al, EIPR 45 (2009).

<sup>65</sup> This step has been proposed by Griffiths, *supra* note 28, at 21. With regard to the recent introduction of fair use in Israel, see O. Fischman Afori, *An Open Standard “Fair Use” Doctrine: A Welcome Israeli Initiative*, EIPR 85 (2008); Guy Pessach, *The New Israeli Copyright Act – A Case-Study in Reverse Comparative Law*, 41 IIC 187-93 (2010); Amira Dotan et al., *Fair Use Best Practices for Higher Education Institutions: The Israeli Experience* (this issue).

supplemented rather than replaced with an open-ended fair use clause.<sup>66</sup> Allowing the identification of additional types of permissible unauthorized use in the light of the individual circumstances of a given case, this clause would nonetheless open up the currently closed catalogue of limitations that are permissible in the EC.

Moreover, it is to be considered that fair use need not be equated with use free of charge in an EC context. While the U.S. fair use doctrine does not provide for the payment of equitable remuneration, the inclusion of this feature can hardly be deemed incompatible with the notion of an EC fair use doctrine. The payment of fair compensation constitutes an important feature of the current limitation system in the Copyright Directive and the copyright acts of many EC Member States.<sup>67</sup> It is understood to enhance the breathing space for unauthorized use. When the permission of a specific form of unauthorized use seems desirable even though it impacts deeply on the position of the right owner, the payment of adequate compensation constitutes an additional balancing tool that can be used to minimize the corrosive effect of the exemption. The harm flowing from a broad user privilege, such as the exemption of digital private copying, can be reduced to acceptable, reasonable proportions.<sup>68</sup> As this mechanism enhances the room to manoeuvre in the area of copyright limitations, it is advisable to include compensation payments in a future EC fair use system.

Considering these determinants of an EC fair use doctrine, the three-step test that is already enshrined in Article 5(5) of the Copyright Directive appears as a logical starting point for future fair use initiatives.<sup>69</sup> Like

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<sup>66</sup> Cf. the detailed discussion of different types of fair use legislation by FÖRSTER, *supra* note 13, at 211-22.

<sup>67</sup> See EC Copyright Directive rec. 35 ("In certain cases of exceptions or limitations, rightholders should receive fair compensation to compensate them adequately for the use made of their protected works or other subject-matter. When determining the form, detailed arrangements and possible level of such fair compensation, account should be taken of the particular circumstances of each case. When evaluating these circumstances, a valuable criterion would be the possible harm to the rightholders resulting from the act in question.").

<sup>68</sup> This solution is adopted in the EC Copyright Directive. See EC Copyright Directive 5(2)(a)–(b).

<sup>69</sup> As to the application of the three-step test criteria in the framework of a fair use weighing process, see Kamiel J. Koelman, *Fixing the Three-Step Test*, EIPR 407 (2006); Martin R.F. Senftleben, *Beperkingen à la carte: Waarom de Auteursrechtlijn ruimte laat voor fair use*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT 19 (2003). However, see also the conclusions drawn by Griffiths, *supra* note 28, who doubts that the three-step test offers an appropriate basis for the enhancement of flexibility in the area of copyright limitations.

traditional fair use legislation, the three-step test sets forth open-ended factors. The drafting history of the three-step test confirms that the flexible formula has its roots in the Anglo-American copyright tradition.<sup>70</sup> Not surprisingly, a line between the criteria of the three-step test and the factors to be found in fair use provisions, such as the U.S. fair use doctrine, can easily be drawn. The prohibition of a conflict with a normal exploitation, for instance, recalls the fourth factor of the U.S. fair use doctrine “effect of the use upon the potential market for or value of the copyrighted work.”<sup>71</sup> Given the appearance of the three-step test in several EC Directives,<sup>72</sup> the provision can moreover be regarded as part of the established legal principles of EC law. In line with the corresponding international provisions, the EC three-step test is moreover understood to offer enhanced breathing space for limitations when copyright owners are adequately compensated for exempted unauthorized use.<sup>73</sup>

The introduction of an EC fair use doctrine on the basis of the three-step test, however, requires a substantial change in the current EC approach. *The three-step test would have to be redefined.* Instead of perceiving and employing the test exclusively as a straitjacket of copyright limitations — a means of placing further constraints on precisely-defined exceptions — it would be necessary to recognize that the open-ended criteria of the test allow not only the restriction but also the introduction and broadening of limitations. Interestingly, this more holistic interpretation corresponds to the concept underlying the international three-step test (section IV.A). As the EC provision is derived from the relevant international norms, this first hurdle on the way towards an EC fair use doctrine is thus surmountable. An additional question, however, is whether national fair use legislation is compatible with the international three-step test (section IV.B). If the international three-step test precludes the introduction of fair use at the national level, the test can hardly serve as a basis for an EC fair use doctrine. This fundamental question will be discussed

<sup>70</sup> See observation by the United Kingdom, Doc. S/13, RECORDS OF THE INTELLECTUAL PROPERTY CONFERENCE OF STOCKHOLM JUNE 11 TO JULY 14, 1967, at 630 (1971) [hereinafter RECORDS 1967]. Cf. SENFTLEBEN, *supra* note 3, 47-52.

<sup>71</sup> Cf. 17 U.S.C. § 107 (2006). With regard to the application of fair use analyses concerning the fourth factor in the context of the three-step test, see SENFTLEBEN, *supra* note 3, at 184-87.

<sup>72</sup> See the overview provided by SENFTLEBEN, *supra* note 3, at 245.

<sup>73</sup> With regard to the three-step tests in Article 9(2) Berne Convention, 13 TRIPS and 10 WCT, it is recognized that the payment of equitable remuneration may be used to reduce an unreasonable prejudice to legitimate interests to a permissible, reasonable level. This principle is also applied in the context of the EC Copyright Directive. See EC Copyright Directive rec. 35. Cf. SENFTLEBEN, *supra* note 3, at 125-33.



before tracing the conceptual contours of a future EC fair use doctrine (section IV.C).

A. *Enabling Function of the Three-Step Test*

In international copyright law, there can be little doubt that the three-step test does not only serve the purpose of restricting national copyright limitations. At the 1967 Stockholm Conference for the Revision of the Berne Convention, the first three-step test in international copyright law was devised as a flexible framework, within which national legislators would enjoy the freedom of safeguarding national limitations and satisfying domestic social, cultural and economic needs.<sup>74</sup> The provision was intended to serve as a basis of national copyright limitations. Accordingly, Article 9(2) Berne Convention offers national law makers the freedom:

to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.

This three-step test made its way into Article 13 TRIPS and played a decisive role during the negotiations of the WIPO “Internet” Treaties.<sup>75</sup> In Article 10(1) WCT, it paved the way for agreement on limitations of the rights newly granted under the WIPO Copyright Treaty, including the right of online making available as part of the general right of communication to the public.<sup>76</sup> In the context of the WIPO Copyright Treaty, it has moreover been clarified that the international test, indeed, constitutes a means of enabling limitations and enhancing the flexibility of the copyright system:

It is understood that the provisions of Article 10 permit Contracting Parties to carry forward and appropriately extend into the digital environment limitations and exceptions in their national laws which have been considered acceptable under the Berne Convention. Similarly, these pro-

<sup>74</sup> See Doc. S/1, RECORDS 1967, *supra* note 70, 81.

<sup>75</sup> With regard to the evolution of this “family” of copyright three-step tests in international copyright law, see SENFTLEBEN, *supra* note 3, 43-98; N. Dittrich, *Der Dreistufentest*, in BEITRÄGE ZUM URHEBERRECHT VIII, at 63 (N. Dittrich ed., 2005); Joachim Bornkamm, *Der Dreistufentest als urheberrechtliche Schrankenbestimmung – Karriere eines Begriffs*, in HANS-JÜRGEN AHRENS ET AL., FESTSCHRIFT FÜR WILLI ERDMANN ZUM 65. GEBURTSTAG 29 (2002).

<sup>76</sup> As a consequence, the three-step test of Article 10(1) WCT is the central threshold for limitations on the right of making available online. As to the debate in the context of the WIPO “Internet” Treaties, see SENFTLEBEN, *supra* note 3, at 96-98; MIHÁLY FICSOR, THE LAW OF COPYRIGHT AND THE INTERNET – THE 1996 WIPO TREATIES, THEIR INTERPRETATION AND IMPLEMENTATION (2002); JÖRG REINBOHE & SILKE VON LEWINSKI, THE WIPO TREATIES 1996 – COMMENTARY AND LEGAL ANALYSIS (2002).

visions should be understood to permit Contracting Parties to devise new exceptions and limitations that are appropriate in the digital network environment.<sup>77</sup>

At the national level, the three-step test has been used in this enabling sense,<sup>78</sup> for instance, in decisions of the German Federal Court of Justice. In a 1999 case concerning the Technical Information Library Hannover, the Court underlined the public interest in unhindered access to information. Accordingly, it offered support for the Library's practice of copying and dispatching scientific articles on request by single persons and industrial undertakings.<sup>79</sup> The legal basis of this practice was the statutory limitation for personal use in § 53 of the German Copyright Act. Under this provision, the authorized user need not necessarily produce the copy herself but is free to ask a third party to make the reproduction on her behalf. The Court admitted that the dispatch of copies came close to a publisher's activity.<sup>80</sup> Nonetheless, it refrained from putting an end to the library practice by assuming a conflict with a work's normal exploitation. Instead, the Court deduced an obligation to pay equitable remuneration from the three-step test, and enabled the continuation of the information service in this way.<sup>81</sup>

In a 2002 decision concerning the scanning and storing of press articles for internal e-mail communication in a private company, the Court gave a further example of its flexible approach to the three-step test. It held that digital press reviews had to be deemed permissible under § 49(1)

<sup>77</sup> See WIPO Copyright Treaty, Agreed Statement Concerning Article 10.

<sup>78</sup> Cf. Annette Kur, of Oceans, Islands, and Inland Water – How Much Room for Exceptions and Limitations Under the Three-Step Test?, Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper Series No. 08-04 (2008), available at <http://ssrn.com/abstract=1317707>; Geiger, *The Three-Step Test, a Threat to a Balanced Copyright Law?*, *supra* note 28, at 694-96; Martin R.F. Senftleben, *Grundprobleme des urheberrechtlichen Dreistufentests*, GRUR INT'L 200, 206-07 (2004). For an overview of national case law applying the three-step test as a flexible standard, see Griffiths, *supra* note 28. For a proposal to use the three-step test as an instrument to delineate the exclusive rights of copyright owners, see Daniel Gervais, *Towards a New Core International Copyright Norm: The Reverse Three-Step Test*, 9 MARQ. INTELL. PROP. L. REV. 1 (2005).

<sup>79</sup> See Bundesgerichtshof, [BGH] Feb. 25, 1999, case I ZR 118/96, JURISTENZEITUNG [JZ] 1000 (1999), with case comment by H. Schack. For an English description of the case, see SENFTLEBEN, *supra* note 3, 206-208.

<sup>80</sup> See BGH, JZ at 1004.

<sup>81</sup> See *id.* at 1005-07. Cf. Patrick Baronikians, *Kopienversand durch Bibliotheken – rechtliche Beurteilung und Vorschläge zur Regelung*, ZUM 126 (1999). In the course of subsequent amendments to the Copyright Act, the German legislature modelled a new copyright limitation on the court's decision. § 53a of the German Copyright Act goes beyond the court decision by including the dispatch of digital copies in graphical format.

of the German Copyright Act just like their analogue counterparts, if the digital version — in terms of its functioning and potential for use — essentially corresponded to traditional analogue products.<sup>82</sup> To overcome the problem of an outdated wording of § 49(1) that seemed to indicate the limitation's confinement to press reviews on paper,<sup>83</sup> the Court stated that, in view of new technical developments, a copyright limitation may be interpreted extensively.<sup>84</sup> Taking these considerations as a starting point, the Court arrived at the conclusion that digital press reviews were permissible, if articles were included in graphical format without offering additional functions, such as a text collection and an index. This extension of the analogue press review exception to the digital environment, the Court maintained, was in line with the three-step test.<sup>85</sup>

Hence, the test can be used to enable limitations and enhance flexibility in copyright law. National legislation adopting a fair use approach, however, goes beyond the described court decisions. It allows the courts to create new limitations on the basis of abstract factors instead of entrusting them merely with the flexible interpretation of pre-defined, specific exceptions. In other words, national *fair use* legislation “institutionalizes” the function of enabling limitations which the international three-step test has because of its open-ended wording.

#### B. Three-Step Test and Fair Use

Against this background, it is not surprising that doubt has been cast upon the compliance of national fair use legislation with the international three-step test. In particular, it has been asserted that a national fair use system did not qualify as a “certain special case” in the sense of the three-step test.<sup>86</sup> This argument is based on the three-step tests of Article 13

<sup>82</sup> See BGH, July 11, 2002, case I ZR 255/00, GRUR 963 (2002); JZ 473 (2003), with case comment by Thomas Dreier. Cf. Thomas Hoeren, *Pressespiegel und das Urheberrecht*, GRUR 1022 (2002).

<sup>83</sup> The German Copyright Act, § 49(1) as in force at that time, referred to *Informationsblätter*.

<sup>84</sup> See BGH, JZ at 966.

<sup>85</sup> See *id.* at 966-67. The court referred to the three-step test of Article 5(5) of the EC Copyright Directive. The EC three-step test enshrined in this provision, however, does not deviate from the international three-step test.

<sup>86</sup> As to the debate on the impact of the three-step test on open-ended limitations, such as the U.S. fair use doctrine, cf. FÖRSTER, *supra* note 13, at 191-201; SENFTLEBEN, *supra* note 3, at 133-37 and 162-68; Bornkamm, *supra* note 75, 45-46; Herman Cohen Jehoram, *Restrictions on Copyright and Their Abuse*, EIPR 359 (2005); SAM RICKETSON, THE THREE-STEP TEST, DEEMED QUANTITIES, LIBRARIES AND CLOSED EXCEPTIONS 147-54 (2003); Marshall Leaffer, *The Uncertain Future of Fair Use in a Global Information Marketplace*, 62 OHIO ST. L.J. 849 (2001); Ruth Okediji, *Toward an International Fair Use Doctrine*, 39 COLUM. J. TRANSNAT'L L. 75, 116-30 (2000);

TRIPs and Article 10(2) WCT. In contrast to the aforementioned Article 9(2) BC and Article 10(1) WCT, these tests do not primarily serve as a basis for national limitations. Article 13 TRIPs and Article 10(2) WCT rather constitute additional safeguards seeking to ensure that all kinds of copyright limitations keep within the limits of the three-step test.<sup>87</sup> Interpreting the TRIPs test, however, the WTO Panel reporting on Section 110(5) of the U.S. Copyright Act did not endorse the view that fair use, by definition, was incompatible with the requirement of “certain special cases.” Instead, the Panel followed a more cautious approach:

However, there is no need to identify explicitly each and every possible situation to which the exception could apply, provided that the scope of the exception is known and particularised. This guarantees a sufficient degree of legal certainty.<sup>88</sup>

In this way, the Panel left room for national copyright laws providing for fair use. Legal certainty is not necessarily an exclusive task of the legislator. It may be divided between law makers and judges. In fair use systems, the degree of legal certainty need not be lower than in systems with precisely-defined statutory limitations. The open factors constituting the fair use criteria allow the courts to determine “certain special cases” of permissible unauthorized use in the light of the individual circumstances of a given case. With every court decision, a further “special case” becomes known, particularized and thus “certain” in the sense of the three-step test. A sufficient degree of legal certainty follows from established case

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Julie E. Cohen, *WIPO Copyright Treaty Implementation in the United States: Will Fair Use Survive?*, EIPR 236 (1999); Tyler Newby, *What's Fair Here is Not Fair Everywhere: Does the American Fair Use Doctrine Violate International Copyright Law?*, 51 STAN. L. REV. 1633 (1999).

<sup>87</sup> For a discussion of the different functions of the three-step test, and the difference between Articles 9(2) Berne Convention and 10(1) WCT on the one hand, and Articles 13 TRIPs and 10(2) WCT on the other, see SENFTLEBEN, *supra* note 3, at 118-25.

<sup>88</sup> See WTO Doc. WT/DS160/R, para. 6.108, available at <http://www.wto.org>. For comments on the report, see Martin R.F. Senftleben, *Towards a Horizontal Standard for Limiting Intellectual Property Rights? – WTO Panel Reports Shed Light on the Three-Step Test in Copyright Law and Related Tests in Patent and Trademark Law*, 37 IIC 407 (2006); Mihály Ficsor, *How Much of What? The Three-Step Test and Its Application in Two Recent WTO Dispute Settlement Cases*, 192 RIDA 111 (2002); Jo Oliver, *Copyright in the WTO: The Panel Decision on the Three-Step Test*, 25 COLUM. J.L. & ARTS 119 (2002); David J. Brennan, *The Three-Step Test Frenzy – Why the TRIPs Panel Decision Might Be Considered Per Incuriam*, INTELL. PROP. Q. 213 (2002); Jane Ginsburg, *Toward Supranational Copyright Law? The WTO Panel Decision and the “Three-Step Test” for Copyright Exceptions*, RIDA 13 (2001); P. Bernt Hugenholtz, *De wettelijke beperkingen beperkt. De WTO geeft de driestappentoets tanden*, TIJDSCHRIFT VOOR AUTEURS-, MEDIA- EN INFORMATIERECHT 197 (2000).

law instead of detailed legislation. For instance, a sufficient degree of legal certainty can be attained in a system with a long-standing fair use tradition, such as the U.S. copyright system.<sup>89</sup>

Moreover, it is to be recalled that flexible law making in the field of copyright limitations is a particular feature of the Anglo-American copyright tradition. At the international level, a WTO Panel can be expected to take into account both the continental-European and the Anglo-American tradition of copyright law. The Panel's formula of "a sufficient degree of legal certainty" can thus be understood to ensure that not only precisely-defined civil law exceptions but also common law fair use limitations are capable of passing the test of "certain special cases." Otherwise, an entire tradition of legal thinking would be discredited and declared incompatible with international standards. The international three-step test, therefore, can hardly be understood to preclude national fair use legislation. With the open-ended factors of special cases, normal exploitation, legitimate interests and unreasonable prejudice, the test itself is a source of inspiration for flexible law making in the field of copyright limitations rather than an obstacle to the introduction of national fair use systems.

### C. *Conceptual Contours*

In this vein, an EC fair use doctrine can be established on the basis of the three-step test embodied in Article 5(5) of the Copyright Directive. As the international three-step test does not militate against national fair use legislation, policy makers in the EC are free to model an EC fair use doctrine on the test's flexible, open-ended criteria. Such a provision based on the three-step test, and incorporated into the Copyright Directive as a new Article 5(5), could take the following shape:

In certain special cases comparable to those reflected in the exceptions and limitations provided for in paragraphs 1, 2, 3 and 4, the use of works or other subject-matter may also be exempted from the reproduction right provided for in Article 2 and/or the right of communication and making available to the public provided for in Article 3, provided that such use does not conflict with a normal exploitation of the work or other subject-matter and does not unreasonably prejudice the legitimate interests of the rightholder.<sup>90</sup>

<sup>89</sup> In this sense, see SENFTLEBEN, *supra* note 3, at 162-68. Cf. Beebe, *supra* note 6. However, see the critical comments by FÖRSTER, *supra* note 13, at 197-201, on the unrestricted openness of the U.S. system. With regard to the predictability of fair use decisions, see also Nimmer, *supra* note 6.

<sup>90</sup> This proposal is in line with Article 5.5 of the European Copyright Code that is the result of the Wittern Project that was established in 2002 as a collaboration between copyright scholars across the European Union concerned with the future development of European copyright law. The proposed European Copyright Code of the Wittern Project is available online at

This wording would indicate that the exceptions enumerated in paragraphs 1, 2, 3 and 4 of Article 5 of the Copyright Directive are regarded as certain special cases in the sense of the three-step test. Accordingly, they can serve as a reference point for the identification of further cases of permissible unauthorized use on the basis of the proposed EC fair use doctrine. In line with this approach, these further cases would have to be comparable with those reflected in the enumerated exceptions, for instance, in the sense that they serve comparable purposes or are justified by comparable policies. The catalogue of explicitly listed EC exceptions would thus fulfil the same function as the indication of purposes, “such as criticism, comment, news reporting, teaching . . . scholarship, or research,” in Section 107 of the U.S. Copyright Act.

As indicated above, the first condition to be considered by the judge — no conflict with a normal exploitation — can be understood to forge a link with the U.S. fair use factor “effect of the use upon the potential market for or value of the copyrighted work.” An interpretation of this condition in line with established U.S. case law would contribute to the harmonization of EC and U.S. copyright limitations.<sup>91</sup> The second condition — no unreasonable prejudice to legitimate interests — can be understood as a refined proportionality test. The detriment to the copyright

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www.copyrightcode.eu. With regard to national court decisions that can be regarded as precursors of the proposed development of new exceptions on the basis of the existing catalogue or precisely defined exceptions, see Hoge Raad, Oct. 20, 1995, Dior/Evora, no. 682, *Nederlandse Jurisprudentie* (1996), with case comment by Jaap H. Spoor; *TIJDSCHRIFT VOOR AUTEURS-, MEDIA EN INFORMATIERECHT* 51 (1996), with case comment by F. Willem Grosheide. In this decision, the Hoge Raad, *id.*, para. 3.6.2, held that the specific exceptions laid down in the Dutch Copyright Act did not necessarily exclude the further delineation of the limits of copyright protection “in other cases on the basis of a comparable weighing of interests.” Cf. JAAP H. SPOOR, D.W. FEER VERKADE & DIRK J.G. VISSER, *AUTEURSRECHT* 221 (3d ed. 2005).

<sup>91</sup> With regard to the application of fair use analyses concerning the fourth factor in the context of the three-step test, see SENFTLEBEN, *supra* note 3, at 184-87. Lessons for the application of an EC fair use doctrine can particularly be derived from experiences with an overly broad application of the fourth factor test. As pointed out by Leval, *supra* note 6, 1124-25 (“By definition every fair use involves some loss of royalty revenue because the secondary user has not paid royalties. Therefore, if an insubstantial loss of revenue turned the fourth factor in favor of the copyright holder, this factor would never weigh in favor of the secondary use. . . . The market impairment should not turn the fourth factor unless it is reasonably substantial. When the injury to the copyright holder’s potential market would substantially impair the incentive to create works for publication, the objectives of the copyright law require that this factor weigh heavily against the secondary user.”).

owner should be reasonably related to the social, cultural or economic benefits that can be derived from the exemption of the use in question. In this context, the payment of equitable remuneration is to be factored into the equation. An unreasonable prejudice may be reduced to a permissible, reasonable level by providing for adequate monetary compensation.<sup>92</sup>

#### V. CONCLUSION AND INTERNATIONAL PERSPECTIVE

The EC system of copyright limitations is in a lamentable state. The traditional continental-European approach to copyright limitations promotes legal certainty by providing for precisely-defined exceptions. In the Anglo-American copyright tradition, open-ended fair use legislation enhances flexibility. The current EC regulation of copyright limitations, however, fails to realize any of these potential advantages. The three-step test enshrined in Article 5(5) of the Copyright Directive offers flexible, open-ended factors. However, this flexibility is not used to create additional breathing space for copyright limitations. By contrast, the three-step test is applied to further restrict exceptions that are already defined precisely in the national laws of EC Member States. As a result of the additional application of open-ended factors, the legal certainty that could follow from the precise definition of exceptions is minimized. In consequence, the current EC system offers neither legal certainty nor sufficient flexibility. When it is considered that, in addition, law and policy making in the EC is much slower than in individual countries, it becomes obvious that *the current legal framework is a worst case scenario*. With use privileges being forced into an inflexible legislative straitjacket, the EC limitation infrastructure can hardly keep pace with the rapid development of Internet technology. Important opportunities for social, cultural and economic development offered by new Internet platforms and services are likely to be missed.

As a way out, it is indispensable to incorporate flexible fair use elements into the system. This solution need not lead to a radical change in

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<sup>92</sup> For a detailed discussion of the third criterion of the three-step test as a refined proportionality test, see SENFTLEBEN, *supra* note 3, at 226-44. As for the payment of equitable remuneration, see the example accompanying the introduction of the three-step test at the 1967 Stockholm Conference, Report on the Work of Main Committee I, RECORDS 1967, *supra* note 70, 1145-46 (“A practical example might be photocopying for various purposes. If it consists of producing a very large number of copies, it may not be permitted, as it conflicts with a normal exploitation of the work. If it implies a rather large number of copies for use in industrial undertakings, it may not unreasonably prejudice the legitimate interests of the author, provided that, according to national legislation, an equitable remuneration is paid. If a small number of copies is made, photocopying may be permitted without payment, particularly for individual or scientific use.”).

the structure of the EC system. In particular, it is not necessary to sacrifice long-standing EC exceptions on the altar of a broad fair use provision. By contrast, it would be sufficient to take full advantage of the flexibility inherent in the three-step test that has already become a cornerstone of EC legislation in the field of copyright limitations. Like in international copyright law, the three-step test would have to be perceived and used as a flexible balancing tool fulfilling different functions. In case of overly broad use privileges, the test may serve as a means to reduce the scope of the limitation to reasonable proportions. In case of a need for more room to manoeuvre, however, the three-step test should be employed as a vehicle to broaden existing limitations and introduce new use privileges. In this way, an appropriate copyright framework could be established, for instance, with regard to advanced search engine services, the digitization of cultural material and user-generated content.

A future EC fair use doctrine should use the current catalogue of EC exceptions in Article 5 of the Copyright Directive as examples of “certain special cases” in the sense of the three-step test, and entrust the courts with the task of identifying comparable further cases on the basis of the abstract criteria of “no conflict with a normal exploitation” and “no unreasonable prejudice to legitimate interests.” While the normal exploitation criterion can be understood to be in line with the U.S. fair use factor of “effect of the use upon the potential market for or value of the copyrighted work,” the unreasonable prejudice criterion constitutes a refined proportionality test that takes account of the payment of equitable remuneration. Fair use in the EC, thus, would not necessarily mean use free of charge.

This EC fair use doctrine would not only remedy the shortcomings of the current EC system. It can also be expected to have a beneficial effect on the further harmonization of copyright limitations at the international level.<sup>93</sup> As indicated, the proposed fair use provision would forge a link with the U.S. fair use doctrine that could lead to comparable reactions to the current challenges of Internet technology. More importantly, however, an EC fair use doctrine based on the three-step test would reflect a balanced, holistic approach to the test. The open-ended criteria set forth

<sup>93</sup> With regard to current WIPO initiatives in the area of copyright limitations, see the overview provided in document SCCR/20/4. With regard to recent studies concerning educational activities, see documents SCCR/19/4 (Monroy Study); SCCR/19/5 (Fometeu Study); SCCR/19/6 (Nabhan Study); SCCR/19/7 (Seng Study); SCCR/19/8 (Xalabarder Study). As for the current debate on exceptions and limitations for educational activities and practice, and measures for the benefit of persons with print disabilities, see document SCCR/20/3; SCCR/20/5. The WIPO documents are available at <http://www.wipo.int>. Cf. THE DEVELOPMENT AGENDA: GLOBAL INTELLECTUAL AND DEVELOPING COUNTRIES (Neil W. Netanel ed., 2007).



in the three-step test have always been intended to provide a flexible framework, within which national legislators enjoy the freedom of safeguarding national limitations and satisfying domestic social, cultural and economic needs.<sup>94</sup> Not only the restriction of excessive copyright limitations but also the broadening of important use privileges, and the introduction of new exemptions fall within the test's ambit of operation. What is proposed here, in other words, is a renaissance of the initial understanding of the three-step test — a renaissance of the test as a refined proportionality test that offers breathing space for unauthorized use within reasonable limits. The reinforcement of this balanced understanding of the test is central to the international debate on copyright limitations. It challenges the rhetoric of a three-step test that is primarily designed to restrict all kinds of copyright limitations.<sup>95</sup>

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<sup>94</sup> See Doc. S/1, RECORDS 1967, *supra* note 70, at 81.

<sup>95</sup> Cf. Geiger, Griffiths & Hilty, *supra* note 63.